

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Mid-Michigan Library League	County Wexford
Fiscal Year End 9-30-06	Opinion Date 10-24-06	Date Audit Report Submitted to State November 27, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.	Telephone Number 231-775-9789		
Street Address 134 West Harris Street	City Cadillac	State MI	Zip 49601
Authorizing CPA Signature 	Printed Name Michael D. Cool, C.P.A.	License Number 1101023146	

MID-MICHIGAN LIBRARY LEAGUE

CADILLAC, MICHIGAN

SEPTEMBER 30, 2006

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

SEPTEMBER 30, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	i
Management's Discussion and Analysis	ii-v
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Balance Sheet - General Fund	3
Reconciliation of Balance Sheet of General Fund to Net Assets	4
Schedule of Revenues, Expenditures and Changes in Fund Balance -	
Budgetary Comparison Schedule – General Fund	5-6
Reconciliation of the Schedule of Revenues, Expenditures and Changes	
In Fund Balance to the Statement of Activities	7
Notes to Financial Statements	8-18
Other Information	
Letter of Comments and Recommendations	19
Letter of Reportable Conditions	20

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CERTIFIED PUBLIC ACCOUNTANTS

October 24, 2006

INDEPENDENT AUDITORS' REPORT

Mid-Michigan Library League Board
Cadillac, Michigan

We have audited the accompanying financial statements of the governmental activities of Mid-Michigan Library League (a library cooperative) as of and for the year ended September 30, 2006, which collectively comprise the League's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mid-Michigan Library League's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Mid-Michigan Library League as of September 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages ii through v is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MID MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

Mid Michigan Library League, a Library Cooperative located in Wexford County, Michigan offers this narrative overview and analysis of the financial activities of the League for the fiscal year ended September 30, 2006 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the League's financial activity.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements, required by GASB 34, are calculated using full accrual accounting and more closely represent those presented by business and industry. The League's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

C. Summary of Net Assets

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the League's financial position over time. The Net Assets of the League are \$17,832 at September 30, 2006, meaning the League's assets were greater than its liabilities by this amount. Net assets may serve over time as a useful indicator of a government's financial position. A comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous fiscal year.

MID MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

	<u>2006</u>	<u>2005</u>
Assets		
Current Assets	\$ 48,063	\$ 80,001
Non Current Assets		
Capital Assets	49,732	46,782
Less Accumulated Depreciation	<u>(25,055)</u>	<u>(15,305)</u>
Total Non Current Assets	<u>24,677</u>	<u>31,477</u>
Total Assets	<u><u>\$ 72,740</u></u>	<u><u>\$ 111,478</u></u>
Liabilities		
Current Liabilities	\$ 14,782	\$ 46,830
Non Current Liabilities	<u>40,126</u>	<u>24,529</u>
Total Liabilities	<u>54,908</u>	<u>71,359</u>
Net Assets		
Invested in Capital Assets Net of Related Debt	21,897	27,163
Unrestricted - (Deficit)	<u>(4,065)</u>	<u>12,956</u>
Total Net Assets	<u>17,832</u>	<u>40,119</u>
Total Liabilities and Net Assets	<u><u>\$ 72,740</u></u>	<u><u>\$ 111,478</u></u>

D. Analysis of Financial Position

During the fiscal year ended September 30, 2006, the League's net assets decreased by \$22,287. A significant factor affecting net assets during the year is discussed below:

1. Depreciation Expense

GASB 34 requires Mid Michigan Library League to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended September 30, 2006, \$9,750 was recorded for depreciation expense.

MID MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

E. Results of Operations

The following table illustrates and summarizes the results of the changes in the net assets for the League. The condensed information was derived from the government-wide Statement of Activities:

	2006		2005	
	Amount	% of Total	Amount	Total
Revenues				
Charges for Services	\$ 33,961	7.86%	\$ 36,402	7.10%
Operating Grants and Contributions	0	0.00%	32,773	6.40%
State Sources	387,132	89.56%	434,216	84.82%
Investment Earnings	2,402	0.56%	899	0.17%
Other	8,755	2.02%	7,738	1.51%
Total Revenues	<u>\$ 432,250</u>	<u>100.00%</u>	<u>\$ 512,028</u>	<u>100.00%</u>
Expenses				
Culture and Recreation	<u>(454,537)</u>		<u>(491,198)</u>	
Change in Net Assets	<u>\$ (22,287)</u>		<u>\$ 20,830</u>	

F. Analysis of Significant Revenues

Significant revenues are discussed in the segments below:

1. State Sources

The majority of the state sources is comprised of direct state aid. The League collected \$245,219 in direct state aid for the fiscal year ending September 30, 2006.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on October 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on September 30th.

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

MID MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Total Revenues	\$ 444,718	\$432,837	\$432,250	\$ (587)
Total Expenditures	(434,946)	(448,293)	(457,081)	(8,788)
Other Financing Sources	0	0	30,000	30,000
Total	\$ 9,772	\$ (15,456)	\$ 5,169	\$ 20,625

H. Capital Assets

At September 30, the League had \$49,732 in capital assets, including equipment and vehicles. Depreciation expense for the year amounted to \$9,750, bringing the accumulated depreciation to \$25,055 as of September 30, 2006.

I. Factors Bearing on the League's Future

At the time that these financial statements were prepared and audited, the League was aware of the following item that could significantly affect its financial health in the future:

- The decrease in State Aid anticipated over the coming years.

J. Contacting the League's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the League's finances and to demonstrate the League's accountability for the money it receives. If you have questions about this report, please contact Mid Michigan Library League, 210 ½ N. Mitchell Street, Cadillac, Michigan 49601.

MID-MICHIGAN LIBRARY LEAGUE

CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

ASSETS

CURRENT ASSETS

Cash	\$ 41,124
Due From Other Governments	6,939
Total Current Assets	<u>48,063</u>

NON CURRENT ASSETS

Capital Assets	49,732
Less: Accumulated Depreciation	<u>(25,055)</u>
Total Non Current Assets	<u>24,677</u>
TOTAL ASSETS	<u>72,740</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	3,121
Accrued Wages	4,710
Accrued Payroll Withholdings	358
Current Portion of Long Term Debt	<u>6,593</u>
Total Current Liabilities	<u>14,782</u>

NON CURRENT LIABILITIES

Compensated Absences	19,023
Note Payable	24,916
Capital Lease Payable	2,780
Less: Current Portion	<u>(6,593)</u>
Total Non Current Liabilities	<u>40,126</u>

Total Liabilities	<u>54,908</u>
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NET ASSETS

Invested in Capital Assets Net of Related Debt	21,897
Unrestricted - (Deficit)	<u>(4,065)</u>
Total Net Assets	<u>\$ 17,832</u>

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	ACTIVITIES
					NET (EXPENSE)
					REVENUE AND
					CHANGES IN
					NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government					
Culture and Recreation	\$ 454,537	\$ 33,961	\$ 0	\$ 0	\$ (420,576)
<u>GENERAL REVENUES</u>					
State Sources					387,132
Investment Earnings					2,402
Other					8,755
Total General Revenues					398,289
Change in Net Assets					(22,287)
NET ASSETS - Beginning of Year					40,119
NET ASSETS - End of Year					\$ 17,832

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN
GOVERNMENTAL BALANCE SHEET - GENERAL FUND
SEPTEMBER 30, 2006

ASSETS

Cash	\$ 41,124
Due From Other Governments	<u>6,939</u>
 TOTAL ASSETS	 <u><u>\$ 48,063</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 3,121
Accrued Wages	4,710
Accrued Payroll Withholdings	<u>358</u>
 Total Liabilities	 8,189

FUND BALANCE

Unreserved	
Unrestricted	<u>39,874</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 48,063</u></u>

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

SEPTEMBER 30, 2006

Total General Fund Balance	\$ 39,874
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not
reported in the fund

The cost of the capital assets is	\$ 49,732	
Accumulated depreciation is	<u>(25,055)</u>	24,677

Long term liabilities are not due and payable in the current period and are not
reported in the funds

Note Payable	(24,916)
Capital Lease Payable	(2,780)
Compensated Absences	<u>(19,023)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 17,832</u></u>
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The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Federal Grants			
Library Services and Technology Act	\$ 1,500	\$ 0	\$ 0
State Grants			
Library State Aid			
Direct State Aid	246,188	245,219	245,219
Indirect State Aid	153,350	147,299	141,913
Charges for Services			
Supply Charges	40,000	27,500	27,701
Workshop Fees	0	2,600	2,203
Book Sales	880	700	700
Other Charges	0	10	3,357
Interest and Rents			
Interest Earnings	800	1,675	2,402
Other Revenue			
Refunds and Reimbursements	1,500	4,200	5,187
Donations	0	3,334	3,334
Miscellaneous	500	300	234
Total Revenues	444,718	432,837	432,250
EXPENDITURES			
Culture and Recreation			
Personal Services			
Salaries and Wages	207,000	217,000	220,955
Employee Benefits	80,286	75,200	71,138
Supplies			
Office Supplies and Postage	6,000	4,000	5,311
General Operating Supplies	7,000	7,720	8,591
Books, Periodicals and Computer Software	1,100	1,979	2,122
Other Services and Charges			
Purchased Professional and Technical Services	99,900	93,975	95,980
Repair and Maintenance	1,500	1,740	1,650
Rental of Building and Equipment	11,550	11,852	11,852
Bad Debt Expense	0	2,020	286

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Other Purchased Services			
Insurance	3,100	3,200	2,909
Communications	2,500	3,950	3,804
Utilities	3,000	2,500	2,998
Travel and Workshops	5,500	10,535	11,441
Dues and Memberships	1,100	1,130	1,331
Donations	110	3,334	3,334
Bank Service Charges	600	570	594
Capital Outlay	2,200	3,627	3,627
Debt Service			
Principal	0	1,534	6,618
Interest	2,500	2,292	2,540
Contingency	0	135	0
Total Expenditures	434,946	448,293	457,081
Excess of Revenues Over (under) Expenditures	9,772	(15,456)	(24,831)
OTHER FINANCING SOURCES			
Loan Proceeds	0	0	30,000
Net Change in Fund Balance	9,772	(15,456)	5,169
FUND BALANCE - Beginning of Year	34,705	34,705	34,705
FUND BALANCE - End of Year	\$ 44,477	\$ 19,249	\$ 39,874

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

RECONCILIATION OF THE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE OF GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2006

Net change in Fund Balance General Fund	\$ 5,169
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(9,750)
Capital Outlay	2,950
Repayments of principal on debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).	16,618
Loan proceeds provide current financial resources to governmental funds by issuing debt which increases debt in the Statement of Net Assets.	(40,000)
Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Compensated Absences - Beginning of Year	21,749
Compensated Absences - End of Year	<u>(19,023)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (22,287)</u></u>

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Mid-Michigan Library League (League) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The League is a library cooperative formed under Michigan Public Act 89, section 6(a). The League board consists of nine members. Voting member library boards in each member county select one representative to represent the libraries in that county except for member library boards in the counties of Montcalm and Gratiot, who select one representative from the two counties. The League board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the League board is not included in any other governmental "reporting entity" as defined in section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, since league board members are elected by member libraries, and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

In evaluating how to define the entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the League and/or its constituents, or whether the activity is conducted within the geographic boundaries of the League and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the League is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the League's reporting entity.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the League as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the League are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the League considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Governmental funds include the following fund type:

The General Fund is the primary operating fund of the League. It is used to account for all financial resources of the League.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The League has adopted a policy that limits its investments to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- i. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- ii. Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution.
- iii. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- iv. Repurchase agreements consisting of instruments listed in (i).
- v. Banker's acceptances of United States banks.
- vi. Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than one standard rating service.
- vii. Mutual funds registered under the Investment Company Act of 1940, title I of chapter 686, 54 Stat. 789 15 U.S.C. 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the League. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- viii. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

ix. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.118.

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Equipment	5 years
Furniture and Fixtures	10 years
Vehicles	10 years

3. Compensated Absences

It is the League's policy to permit employees to accumulate earned but unused sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

4. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

5. Fund Balance

In the financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

6. Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The League follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The director of the League annually prepares an operating budget taking into consideration the recommendations of the advisory council. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the League board prior to the start of the fiscal year which it covers.
3. All transfers of budget amounts between accounts within the General Fund must be approved by the League board.
4. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Budgeted amounts are as originally adopted, or as amended by the League board.
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the League because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with Expenditures in Excess of Appropriations were as follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund	\$ 448,293	\$ 457,081

These overages were funded by a loan and available fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments – Credit Risk

The League's deposits are all on deposit with Fifth Third Bank.

Investment rate risk. The League will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the League's cash requirement.

Foreign currency risk. The League is not authorized to invest in investments, which have this type of risk.

Credit risk. The League will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the League's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the League will do business in accordance with the League's investment policy.

Concentration of credit risk. The League will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the League's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2006, none of the League's bank balance of \$52,176 was exposed to custodial credit risk because none of it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the League held no investments.

B. Due from Other Governments

Amounts due from other governments of \$6,939 are for reimbursements from member libraries for supplies and materials and grant money yet to be received. Substantially all of these receivables are expected to be collected within sixty days of the balance sheet date.

Capital Assets

A summary of changes in the League's capital assets follows:

	Balance			Balance
	October 1, 2005	Additions	Deletions	September 30, 2006
Capital assets:				
Equipment	\$ 46,782	\$ 2,950	\$ 0	\$ 49,732
Accumulated Depreciation:	(15,305)	(9,750)	0	(25,055)
Net capital assets	\$ 31,477	\$ (6,800)	\$ 0	\$ 24,677

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

C. Short-Term Debt

The League secured a line of credit for \$25,000 on May 5, 2006 to be used for general administrative expenses throughout the year. The Principal sum outstanding carries an interest rate that varies based on the prime rate. The outstanding principal is due by May 5, 2007 and the interest is payable on the 5th day of each month. The balance outstanding at September 30, 2006 was \$0.

A summary of the Short-Term Debt transactions for the League for the year ended September 30, 2006, is as follows:

	<u>LINE OF CREDIT</u>
Short-Term Debt at October 1, 2005	\$ 0
New Liabilities	10,000
Liabilities Retired	<u>(10,000)</u>
Short-Term Debt at September 30, 2006	<u><u>\$ 0</u></u>

E. Long-Term Debt

A summary of the Long-Term Debt transactions for the League for the year ended September 30, 2006, is as follows:

	<u>NOTE</u>	<u>CAPITAL LEASE</u>	<u>COMPENSATED ABSENCES</u>	<u>TOTAL</u>
Long-Term Debt at October 1, 2005	\$ 0	\$ 4,314	\$ 21,749	\$ 26,063
Liabilities Increase (Decrease)	0	0	(2,726)	(2,726)
New Liabilities	30,000	0	0	30,000
Liabilities Retired	<u>(5,084)</u>	<u>(1,534)</u>	<u>0</u>	<u>(6,618)</u>
Long-Term Debt at September 30, 2006	<u>\$ 24,916</u>	<u>\$ 2,780</u>	<u>\$ 19,023</u>	<u>\$ 46,719</u>
Due Within One Year	<u>\$ 5,020</u>	<u>\$ 1,573</u>	<u>\$ 0</u>	<u>\$ 6,593</u>

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

At September 30, 2006, the League's Long-Term Debt consisted of the following:

Note Payable

\$30,000 payable to Fifth Third Bank due in monthly installments of
\$598 through October 5, 2010; interest at 7.50 percent \$ 24,916

Capital Lease

\$6,190 payable to GE Capital due in monthly installments of
\$136 through June 1, 2008; interest at 2.55 percent 2,780

Compensated Absences 19,023
\$ 46,719

Less Current Portion of Long-Term Debt (6,593)
\$ 40,126

The annual requirements to amortize all debt outstanding, except accumulated sick pay, as of June 30, 2006 are as follows:

Year ending June 30,	PRINCIPAL	INTEREST	TOTAL
2007	\$ 6,593	\$ 1,611	\$ 8,204
2008	7,090	1,306	8,396
2009	6,340	836	7,176
2010	6,832	344	7,176
2011	841	5	846
	<u>\$ 27,696</u>	<u>\$ 4,102</u>	<u>\$ 31,798</u>

The accumulated sick pay is not included in the above schedule of annual requirements because it is not known which years the employees will retire and receive a payment for the accumulated sick pay.

F. Compensated Absences Liability

Employees of the Mid-Michigan Library League are entitled to paid vacation and paid sick days depending on job classification, length of service and other factors. At September 30, 2006, the accrued expense for compensated absences was \$19,023.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

IV. OTHER INFORMATION

A. Building Lease

Starting June 1, 2006, the League entered into a 24-month operating lease for a portion of a building in downtown Cadillac, Michigan for \$950 per month for the first year and \$1,050 per month for the second year. This lease follows the completion of a previous 24-month lease. The total cost for both leases was \$10,700 for the year ended September 30, 2006. The future minimum lease payments are as follows:

Year Ending September 30,

2007	\$ 11,800
2008	<u>8,400</u>
	<u>\$ 20,200</u>

B. Leases

Operating Lease - The League leases a postage machine under a noncancelable operating lease. The total cost for the lease was \$1,152 for the year ended September 30, 2006. The future minimum lease payments are as follows:

Year Ending September 30,

2007	\$ 1,152
2008	1,152
2009	<u>864</u>
	<u>\$ 3,168</u>

Capital Lease - The League has entered into a lease agreement as lessee for financing the acquisition of an all in one copier/fax/printer. A \$1 purchase option exists at the end of the lease. This lease qualifies as a capital lease for accounting purposes. The assets acquired through the lease are as follows:

	<u>AMOUNT</u>
ASSETS	
Equipment	\$ 6,504
Less: Accumulated Depreciation	<u>(3,035)</u>
TOTAL	<u>\$ 3,469</u>

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

The future minimum lease obligations of these minimum lease payments as of September 30, 2006 are as follows:

Year Ending September 30,	Principal	Interest	Total
2007	\$ 1,573	\$ 53	\$ 1,626
2008	1,207	13	1,220
Total minimum lease payments	<u>\$ 2,780</u>	<u>\$ 66</u>	<u>\$ 2,846</u>

C. Retirement Commitments

The League's participates in an agent multi-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan for coverage of substantially all of the League's general employees.

Plan Description. Substantially all full-time employees of the League are members of the **Municipal Employees Retirement System of Michigan** (MERS) which provides retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer pension plan administered by the State of Michigan. Act No. 427 of the Public Acts of 1984, as amended, assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities. In this case, the authority rests with the League. The MERS issues a publicly available financial report that includes statements and required supplementary information for MERS. That report may be obtained by writing to The Retirement Board, Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917.

Funding Policy. MERS members are not required to make any contributions to the plan. The League is required to contribute at an actuarially determined rate; the current rate is 7.21% of annual covered payroll. The contribution requirements of plan members and the League are established and may be amended by the MERS board of trustees.

Annual Pension Cost. The required contribution was most recently determined as part of the December 31, 2003 actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions include (a) investment rate of return (net of administrative expenses), and (b) projected salary increases. Both (a) and (b) include an inflation component. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Positive unfunded accrued liability (if any) is amortized as a level percentage of payroll over a closed period of 30 years, while negative unfunded liability (if any) is amortized as a level percentage of payroll over a closed period of 10 years.

MID-MICHIGAN LIBRARY LEAGUE
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

D. Concentration of Credit Risk

Financial instruments which potentially subject the League to a concentration of credit risks consist principally of receivables from member libraries. Even though no one member library accounts for a significant portion of this receivable, they are all heavily reliant on state and local revenues. During this period of governmental budget cutting, there is a potential risk that some member libraries could lose significant revenue sources, causing them to default on their obligations to the League. No provision for uncollectible accounts has been made.

E. Risk Management

The League is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The League participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The League pays annual premiums to each pool for the respective insurance coverage. In the event a pool member's covered loss exceeds the pools limits, all further payments become the sole obligation of the member. The League has not been notified of any shortfalls in the pools in the current year or the prior three years.

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CERTIFIED PUBLIC ACCOUNTANTS

October 24, 2006

Mid-Michigan Library League
Cadillac, Michigan

Dear Members of the Board:

During our examination of the financial statements of the Mid-Michigan Library League for the year ended September 30, 2006, we noted the following items which we believe should be considered by the management of the League:

Budgeting

Expenditures exceeded appropriations in the General Fund. State law requires that the League amend its budget before expending any funds in excess of original appropriations.

We wish to take this opportunity to thank the Board for awarding this firm the audit assignment of the League, and the management for their assistance in helping us fulfill this audit assignment. If you have any questions relative to the preceding comments and recommendations or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

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October 24, 2006

LETTER OF REPORTABLE CONDITIONS

Mid Michigan Library League
Cadillac, Michigan

In planning and performing our audit of the basic financial statements of the Mid Michigan Library League for the year ended September 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

1. The relatively small number of people involved in the accounting functions of the League make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe all of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.